

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 IO-13 ISO-00 AF-10 ARA-10 EA-10
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EB-08 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15 STR-06
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FM SECSTATE WASHDC
TO AMEMBASSY NEW DELHI PRIORITY
USMISSION GENEVA PRIORITY
INFO AMEMBASSY ISLAMABAD

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E.O. 11652: N/A

TAGS: ETRD, GATT, IN

SUBJECT: GATT BOP CONSULTATION WITH INDIA

REF: GENEVA 12829

1. THE US DEL TO BOP COMMITTEE SHOULD REQUEST FULL BOP
CONSULTATION WITH INDIA FOR THE FALL OF 1978. WE THINK
THAT A FULL CONSULTATION IS APPROPRIATE FOR THE FOLLOWING
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REASONS:

-- THE LAST FULL BOP CONSULTATION WITH INDIA TOOK
PLACE IN OCTOBER 1973, OVER FOUR YEARS AGO;

-- SINCE 1973, INDIA'S DOMESTIC ECONOMIC PERFORMANCE
HAS IMPROVED SIGNIFICANTLY, AND ITS EXTERNAL POSI-

TION HAS BEEN TURNED AROUND FROM TRADE AND CURRENT ACCOUNT DEFICITS TO GROWING SURPLUSES ON BOTH ACCOUNTS AND RESERVE LEVELS EQUAL TO NINE MONTHS OF IMPORTS;

-- INDIA MAINTAINS A RESTRICTIVE AND COMPLEX IMPORT REGIME, ALTHOUGH SOME LIBERALIZING MEASURES WERE IMPLEMENTED WITHIN THE PAST TWO YEARS AND THERE HAVE BEEN REPORTS RECENTLY THAT FURTHER LIBERALIZATION IS BEING CONSIDERED;

-- UNDER THESE CIRCUMSTANCES, THE UNITED STATES BELIEVES A CONSULTATION TO EXAMINE THESE RECENT CHANGES AND FUTURE PROSPECTS FOR INDIA'S BOP POSITION AND FURTHER IMPORT LIBERALIZATION WOULD BE IN ORDER.

2. INDIA'S ECONOMY DID NOT PERFORM WELL IN THE EARLY 1970'S. INDUSTRIAL PRODUCTION INCREASED BY LESS THAN THREE PERCENT IN 1973 - 1975, WHILE AGRICULTURAL PRODUCTION STAGNATED OR FELL FROM 1971 TO 1975. INDIA'S TRADE BALANCE DETERIORATED SHARPLY FROM 1972 UNTIL 1976 PRIMARILY BECAUSE OF HIGHER OIL PRICES AND INCREASES IN FOOD-GRAIN IMPORTS NECESSITATED BY POOR DOMESTIC HARVESTS. THE OVERALL BALANCE DETERIORATED UNTIL LATE 1974. OFFICIAL RESERVES WERE DRAINED DURING THIS PERIOD, BY LIMITED OFFICIAL USE

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MORE THAN 50 PERCENT FROM THE BEGINNING OF 1971 TO THE END OF 1975.

3. HOWEVER, BOTH INDIA'S DOMESTIC ECONOMIC PERFORMANCE AND (ESPECIALLY) ITS EXTERNAL POSITION HAVE IMPROVED SHARPLY IN THE PAST THREE YEARS. INDUSTRIAL PRODUCTION INCREASED BY TEN PERCENT IN 1976-7. BUMPER FOODGRAIN HARVESTS HAVE PRODUCED LARGE STOCKS SINCE MID-1975, AND THERE IS OPTIMISM THAT INDIA WILL PRODUCE ANOTHER BUMPER CROP IN 1977-8. THE BOP MOVED FROM A \$575 MILLION DEFICIT IN FY 1974-75 (ENDING MARCH 31, 1975) TO A SURPLUS OF ALMOST \$1.9 BILLION IN FY 1976-77, AND IS EXPECTED TO BE AGAIN IN SURPLUS IN THE 1977-8 FISCAL YEAR. THERE IS A TREND OF GROWING TRADE SURPLUSES EXPECT TO CONTINUE IN 1978.

4. PROSPECTS FOR CONTINUED EXPORT GROWTH ARE GOOD. THE RECENT GROWTH OF EXPORTS WAS BROAD-BASED, SPURRED BY IMPROVED COMPETITIVENESS OF INDIAN PRODUCTS, PRODUCT DIVERSIFICATION, AND INCREASED DEMAND IN EXPORT MARKETS.

5. INDIA'S OFFICIAL NET RESERVE POSITION IMPROVED MORE THAN SEVENFOLD FROM 1975 TO 1977, RESERVES ARE EXPECTED TO

CONTINUE TO GROW IN 1977-8.

6. INDIA MAINTAINS A WIDE VARIETY OF IMPORT CONTROLS, INCLUDING HIGH DUTIES, RESTRICTIVE LICENSING QUOTAS, EQUALIZING EXPORT REQUIREMENTS, AND EQUALIZING DOMESTIC PURCHASE REQUIREMENTS. IMPORT REGULATIONS HAVE BEEN LIBERALIZED SOMEWHAT OVER THE PAST TWO YEARS, ESPECIALLY FOR INTERMEDIATE GOODS AND CONSUMER PRODUCTS. SOME RESTRICTIONS ON THE IMPORT OF CAPITAL GOODS HAVE ALSO EASED SINCE LATE 1976. REPORTS FROM NEW DELHI LAST OCTOBER INDICATED THAT INDIA WAS CONSIDERING FURTHER LIBERALIZATION MEASURES. WE WOULD LOOK FOR AN UPDATE ON POSSIBLE

NEW LIBERALIZATION MEASURES IN A FULL-SCALE BOP CONSULTATION LIMITED OFFICIAL USE

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TION.

7. FOR NEW DELHI: DRAWING ON PARA 1 AND NOTING INDIA'S IMPORTANCE IN WORLD TRADE, THE EMBASSY SHOULD INFORM THE INDIAN GOVERNMENT THAT THE UNITED STATES WILL REQUEST FULL BOP CONSULTATIONS. YOU SHOULD EXPLAIN THAT THE UNITED STATES EXPECTS THE CONSULTATIONS TO BE HELPFUL TO INDIA AND ITS TRADING PARTNERS AND TO BE NON-CONFRONTATIONAL. CHRISTOPHER

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